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RJR Quarterly Report 2

TO STOCKHOLDERS OF R. J. REYNOLDS INDUSTRIES, INC., SECOND QUARTER, 1976

New presidents elected at RJR Archer, RJR Foods

R.J. Reynolds Industries, Inc. has announced the election of new presidents for RJR Foods, Inc. and RJR Archer, Inc., effective September 1.

James H. Corrigan, Jr., President of RJR Archer, will become President of RJR Foods. Carroll G. Tompson, Vice President of R.J. Reynolds Tobacco Company, will be President and Chief Executive Officer of RJR Archer.

Robert L. Remke, now President and Chief Executive Officer of RJR Foods, will become Chairman of the company and will continue as Chief Executive Officer.

"RJR Foods has become a significant factor in several areas of the food industry, yet we are only beginning to realize our potential," Remke said. "Our long-range plans call for greater growth through further development of our current business, new product development and acquisitions.

James H. Corrigan, Jr.

"Corrigan's proven management skills will add greatly to our managerial capabilities and enable us to focus on our critical growth objectives."

Corrigan joined RJR Archer in 1967 as a Sales Manager for the company's Metals Division. He was promoted to General Manager of the division in 1970 and was elected

Carroll G. Tompson

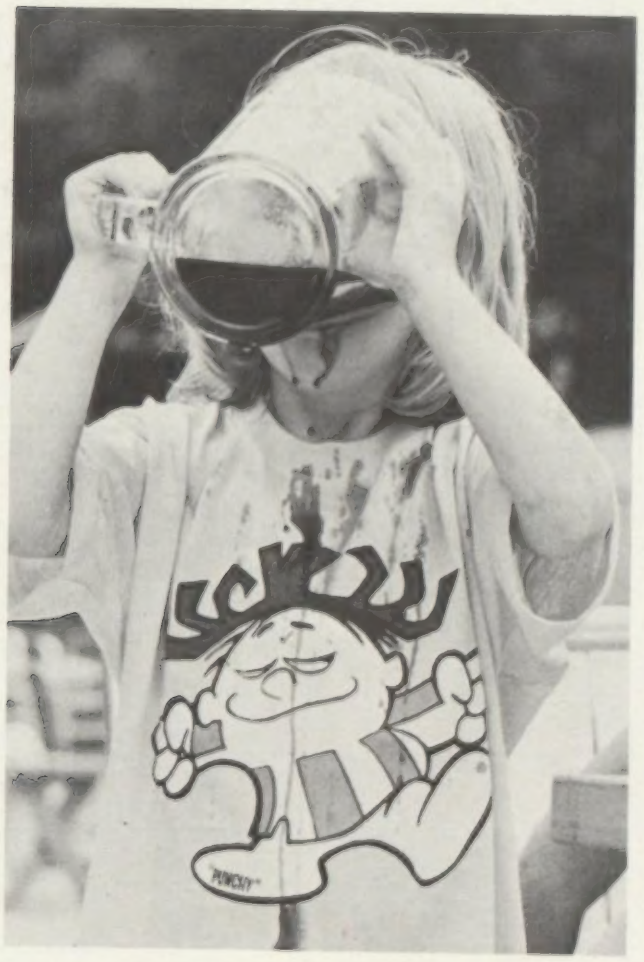
Vice President in 1971. He became President and Chief Operating Officer and a Director of RJR

(Continued on page three.)

Tobacco realigns

R.J. Reynolds Tobacco Company has realigned its executive structure to meet future needs. Story on page three.

Drink Mix sales running 50% ahead of expectations



Overwhelming consumer response to RJR Foods' new Hawaiian Punch Drink Mix has made it one of the most successful products ever introduced in the food industry.

Sales of the four flavors of Drink Mix are running 50 percent ahead of projections. They are expected to continue at this pace through the rest of the year.

In addition to the strong Drink Mix performance, sales of Hawaiian Punch in ready-to-drink, frozen and shelf-concentrate forms are up significantly in 1976.

"Since nationwide distribution was completed in mid-April, Hawaiian Punch Drink Mix has become the fastest growing major brand in the powdered mix category," says Richard A. Mier, Vice President — Brand Operations.

Latest data show that since Hawaiian Punch Drink Mixes came on the market the red punch flavor has moved to second place in the presweetened powdered drink mix category, according to Mier. Previously, when other manufacturers were marketing red punch drink mixes, the flavor ranked number six.

RJR Foods will continue a strong television and print advertising program for Drink Mix throughout the year.

Tobacco International consolidates operations

R.J. Reynolds Tobacco International, Inc. has consolidated its new headquarters in Winston-Salem, N.C., and has completed staffing its head office management team.

The North Carolina head office directs international tobacco operations that have been reorganized into four geographical areas.

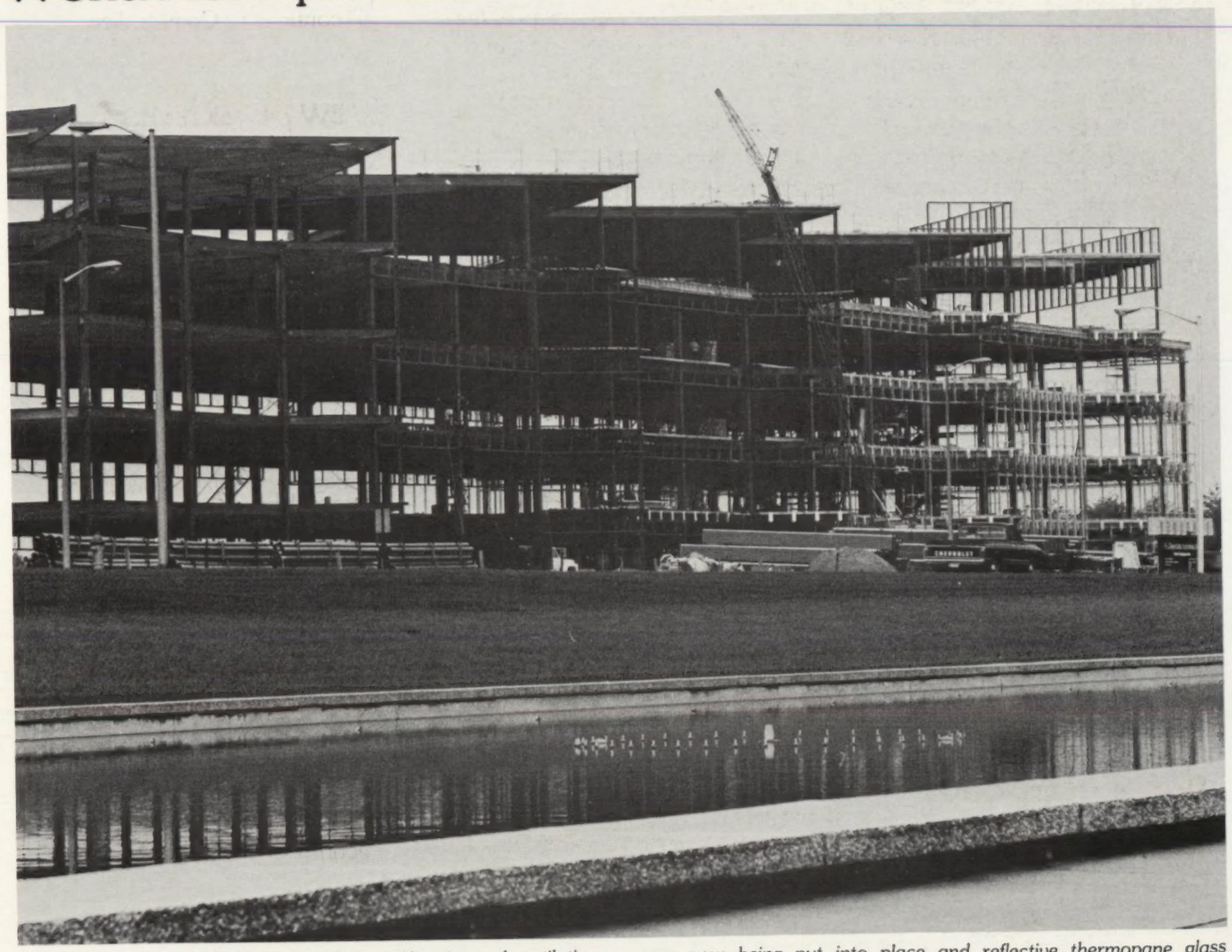
The Geneva office, which used to headquarter all international tobacco operations, now directs operations in Europe, Africa and the Middle East. The other areas are: North America (Montreal); Latin America (Rio de Janeiro); Asia/Pacific (Hong Kong).

The company continues to develop its marketing thrust outside the United States by hiring skilled marketing executives in the countries where it operates.

In Canada John F. Heggie has become Senior Vice President, Marketing at Macdonald Tobacco Inc. Heggie was previously director of marketing at Monarch Fine Foods Company Limited, a subsidiary of Lever Brothers.

Georg Rosenbauer has become General Manager of Haus Neuerburg GmbH, RJR's West German subsidiary. He was previously general manager for the German operations of the Pillsbury Company.

World Headquarters construction continues



Construction crews have begun installation of heating and ventilating ducts, fire sprinkler system and elevators at the new World Headquarters of R.J. Reynolds Industries, Inc. Exterior granite panels are now being put into place and reflective thermopane glass windows will be installed soon. The exterior and roof of the building are scheduled for completion October 15.

Tobacco restructures to better focus on key areas

G.B. Whitaker

C.A. Tucker

A.H. Laurene

J.F. Hind

F.H. Christopher

G.I. Clover

W.P. Hanes

H.L. Speas, Jr.

T.E. Sandefur, Jr.

To increase its ability to focus attention on key growth areas in its industry, R.J. Reynolds Tobacco Company has reorganized its executive alignment with the election of two group vice presidents and seven vice presidents.

"We are realigning the key areas of our management," Wm. D. Hobbs, Chairman, said, "to enable us to focus greater attention on the critical issues of our business.

"This realignment will increase the effectiveness of our management teams by grouping those professional departments with common objectives and responsibilities. It also recognizes the growing importance of the research and development and planning functions."

George B. Whitaker, Vice President - Director of Manufacturing, has been named Group Vice President - Operations and will be responsible for the manufacturing and key operations functions of the company.

Two new vice presidents were elected to report to Whitaker. They are William P. Hanes, who was Production Superintendent of the Manufacturing Department, and who is now Vice President - Manufacturing, and Herbert L. Speas, Jr., formerly Technical Superintendent of the Manufacturing Department, who is now Vice President - Technical Services.

Charles A. Tucker, formerly Vice President and Director of Marketing, has also been elected Group Vice President and will continue as Director of Marketing. Tucker will be responsible for all of the activity dealing with the sales, advertising and promotion of the company's products.

Thomas E. Sandefur, Jr., formerly Director of Advertising and Brand Management, has been elected Vice President of that function and reports to Tucker.

The company's research and development functions will report to Anders H. Laurene, who has been elected Vice President - Research and Development. He was formerly Director of Research and Development.

James F. Hind, formerly Director of Marketing Planning and Development, has been elected to the newly created position of Vice President - Planning.

F. Hudnall Christopher, formerly Vice President of RJR Archer, Inc., has been elected Vice President - Allied Products and Services for Reynolds Tobacco.

George I. Clover, Comptroller, has been elected Vice President and will continue as Comptroller.

New presidents

(Continued from page one.)

Archer in 1972.

A native of Buffalo, N. Y., Corrigan holds a B.S. degree in mechanical engineering from Duke University.

Tompson joined R.J. Reynolds Tobacco in the Research Department in 1953. He was named Production Superintendent in 1966, and was promoted to Manufacturing Manager in 1973. He was elected Vice President - Director of Manufacturing in 1974, and in 1975 he was named Vice President - Research and Development. He was elected to the Board of RJR Archer in 1972 and to the Board of R.J. Reynolds Tobacco in 1974.

A native of Mexico, Mo., Tompson holds an A.B. degree from William Jewell College and an M.S. degree in management from the Massachusetts Institute of Technology.

Aminoil buys Burmah: Old friends together again

When R.J. Reynolds Industries, Inc. (RJR) purchased Burmah Oil and Gas Company (BOAG) from Burmah Oil Company, Limited, it was a bit of a reverse homecoming.

At one time Burmah Oil and Gas was part owner of American Independent Oil Company (Aminoil) — RJR's petroleum subsidiary, which now owns BOAG.

In 1948 BOAG, then known as Signal Oil and Gas Company, was one of the owners of the newly created independent oil firm.

A group of companies, including Signal, had created Aminoil, which bid successfully against the major oil companies for a valuable concession in what was then known as the Neutral Zone (today the Divided Zone) between Kuwait and Saudi Arabia.

In September of 1970 the partners in Aminoil sold it to RJR.

Signal received $18.6 million for its 34 percent interest.

In 1974 British-based Burmah purchased Signal Oil and Gas and renamed it Burmah Oil and Gas.

Signal, however, was just one of many acquisitions Burmah made during the early 1970s. The economic downturn that began in 1974, especially its impact on Burmah's oil tanker operations, made the British company look for funds to service the debt it had undertaken to finance its acquisitions.

On June 30, 1976, RJR bought BOAG in a $522 million cash transaction and folded it into Aminoil along with some of Burmah's other U.S. properties.

For RJR the amalgamation of the Burmah properties with Aminoil gave its petroleum business with one stroke something it has been seeking for the past few years — geographical balance.

The acquisition more than tripled Aminoil's employment roster to about 2,900. Before the acquisition most of Aminoil's employees worked at the oil refinery and desulfurization plant in Kuwait.

The 2,000 employees working at the new operations brought Aminoil's U.S. employment from fewer than 100 persons to about 2,100.

The acquisition boosts total employment of the RJR corporate family to more than 36,500 worldwide — almost a third of which is outside the United States.

Stokes, Sticht bring RJR story to Dallas, L.A.

In mid-June Colin Stokes, Chairman of R.J. Reynolds Industries, Inc., and J. Paul Sticht, President, spoke to members of the financial community, many of them analysts at investment firms, in Dallas and Los Angeles.

Such presentations are part of an RJR program to better communicate with the financial community and offer it a more comprehensive view of the goals RJR has been pursuing since its reorganization in 1970.

Stokes explained the Company's purpose and reasoning behind the Burmah acquisition and outlined how the Company intends to finance the $522 million cash purchase.

Sticht spoke of new products being planned for RJR Foods and of the Company's program to develop managerial talent for the RJR group of companies.

Colin Stokes (left) and J. Paul Sticht (right) discuss RJR with Dallas financial community.

RJR integrates Burmah properties into Aminoil

Production platform in the Gulf of Mexico

R.J. Reynolds Industries, Inc. has integrated the properties it recently purchased from Burmah Oil Company, Limited into its existing petroleum business and changed their names accordingly.

Aminoil USA, Inc. is the new name for Burmah Oil and Gas Company, and Aminoil Development, Inc. is the new name for Burmah Oil Development Inc.

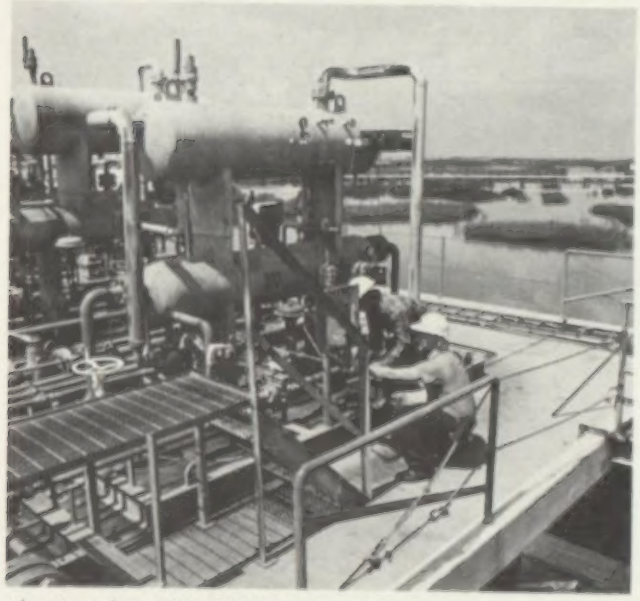
The purchase of the Burmah properties for $522 million in cash was completed on June 30.

Jack B. Sunderland, President of American Independent Oil Company, has become Chairman of Aminoil USA.

The new Aminoil companies produce and explore for oil and natural gas, sell oil and natural gas and their products and have a geothermal operation north of San Francisco.

Last year the new Aminoil properties produced about 20 million barrels of crude oil and condensate and about 38 billion cubic feet of natural gas.

Sunderland: Burmah bought "to make money"



Aminoil in the Mississippi Delta

Jack B. Sunderland

Aminoil USA's Houston headquarters

"Why is R.J. Reynolds pushing ahead into the energy business," a reporter from the *Dallas Morning News* asked Jack B. Sunderland, Aminoil President, at a financial analysts meeting held shortly after RJR's agreement to buy Burmah's U.S. properties had been announced.

"To make money," Sunderland replied.

The major factor affecting just how much money the Company will actually make is "how long oil and gas prices will continue to be controlled . . . and what the nature of those controls will be," Sunderland explains.

"We took this uncertainty into account when we evaluated this investment opportunity."

Before the Company made its $522 million offer, it analyzed each individual property in the proposed transaction to determine the return on investment.

"Our approach was conservative," Sunderland points out. "Not only did we estimate production pessimistically, but we also made a pessimistic assumption about the degree of price regulation.

"Even this approach indicated that the return on our investment would be acceptable.

"When we looked at more optimistic assumptions . . . which we consider more likely . . . we see a return that is somewhat better than merely acceptable.

"Our analysis shows a minimal downside risk coupled with great upside potential."

Dear Stockholders:

Colin Stokes

J. Paul Sticht

Second quarter sales and revenues increased in all our businesses and the Company achieved record sales and revenues and net earnings for the first six months and the second quarter ended June 30, 1976.

Consolidated net sales and revenues for the first six months of 1976 were $2,669 million, up 16 percent, and net earnings were $171 million, up 15 percent.

Fully diluted net earnings per common share for the six months rose 38 cents over the 1975 amount to $3.35. Primary net earnings per common share were $3.62, up 33 cents.

For the second quarter, consolidated net sales and revenues were $1,364 million, up 13 percent from the 1975 second quarter. Net earnings were $95 million, a gain of 4 percent. Second quarter fully diluted net earnings per share were up 6 cents to $1.87. Primary net earnings per share were unchanged at $2.02 for the quarter.

Tobacco Business

Domestic and international tobacco operations contributed about equally to a sales increase of 16 percent for the first six months, when tobacco sales rose by $253 million to $1,837 million. About a third of the increase came from the carryover effect of 1975 price increases. Second quarter sales rose 12 percent to $943 million.

Earnings from operations from tobacco were up 11 percent over 1975 to $279 million for the first half and up 5 percent to $142 million for the second quarter. Increased unit volume accounts for the gains. The benefits from last year's price increases have been largely offset by increased operating expenses and costs associated with the development and introduction of new cigarette brands.

Unit sales of the company's domestic brands were up more than 3.5 percent in the first half of 1976. NOW, the Tobacco Company's new super-low "tar" and nicotine brand introduced into test markets last December, was expanded nationally during the second quarter.

In the international tobacco business unit sales for the first six months were up 39 percent from last year. About a third of the increase was attributable to a Brazilian acquisition in late 1975.

Transportation Business

Improved volumes in some major trade routes resulted in increased revenues and earnings from transportation operations.

Revenues were up 7 percent to $401 million for the first six months and totaled $210 million in the second quarter, a 9 percent increase over the 1975 second quarter.

Transportation earnings from operations were $50 million in the first half, up 16 percent from 1975. In the second quarter earnings from operations were $34 million, up 24 percent over the second quarter of last year.

Petroleum Business

Increased volume accounted for about 75 percent of the sales gains in petroleum operations for the first half and second quarter. Sales for the first six months increased 19 percent over the first half of 1975 to $242 million. Second quarter sales were $114 million, up 23 percent over the same period last year.

Earnings from operations from petroleum for the first six months were $113 million, up 25 percent. Second quarter earnings from operations were $52 million, up 77 percent. Petroleum earnings from operations in the second quarter of 1975 were affected by an expense reclassification discussed below.

The reported results do not include any operating results of Burmah Oil's U.S. operations which the Company purchased on June 30, 1976 for $522 million in cash. Reports for subsequent periods will include the operating results of the acquired business from the date of purchase.

Other Businesses

Exceptionally high levels of sales of the recently introduced Hawaiian Punch powdered drink mixes led higher unit sales for virtually all products in the Company's other businesses (foods and beverages and aluminum products and packaging). In addition to the performance by RJR Foods' Hawaiian Punch powdered drink mixes, significant increases were recorded by RJR Archer's metals, packaging and Filmco divisions.

Sales by the Company's other businesses were $190 million for the first six months, up 32 percent. For the second quarter sales increased 35 percent to $98 million.

Earnings from operations for these businesses increased to $17 million for the six months, 22 percent over last year. Earnings from operations totaled $7 million for the second quarter, essentially unchanged from last year's second quarter as brand development and market introduction expenses have offset the effects of volume gains.

Provision For Income Taxes

The Company's estimated effective income tax rate for the first six months was 61 percent compared to 60 percent for the first six months of 1975.

The estimated rates for the second quarter were 58 percent in 1976 versus 52 percent in 1975. The lower 1975 rate resulted primarily from a change, during the second quarter of 1975, in interpretation of the Company's petroleum tax agreement with the Government of Iran. The change reduced both petroleum earnings from operations and the consolidated tax provision by $23 million for the 1975 second quarter but had no effect on net earnings.

The Company's effective income tax rate is customarily higher than the statutory U.S. Federal income tax rate because of high foreign taxes on earnings from petroleum operations.

Dividends

On July 1, 1976 the regular dividend of 56.25 cents per share was paid on the $2.25 Convertible Preferred Stock to holders of record June 10.

A dividend of 77 cents a share on the Common Stock was declared July 15, payable September 7 to holders of record August 10.

Dividends paid during the second quarter amounted to $37,852,000 compared to $35,295,000 in the second quarter of last year. For the first six months total dividends were $75,634,000, 8 percent higher than the amount paid during the first six months of last year.

Financial Statements

Enclosed are condensed financial statements consisting of a comparative presentation of the results of operations for the three-month and six-month periods ended June 30,1976 and 1975; balance sheets as of June 30,1976 and 1975; and statements of changes in financial position for the six months then ended. These statements are unaudited, but in management's opinion they contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods.

Colin Stokes
Chairman, Board of Directors

J. Paul Sticht
President

July 15, 1976

R. J. REYNOLDS INDUSTRIES, INC.

CONSOLIDATED SUMMARY OF OPERATIONS

(Dollars in Thousands Except Per Share Statistics)

	Three Months Ended June 30		Six Months Ended June 30	
	1976	1975	**1976**	1975
Net sales and revenues:				
Tobacco	**$ 942,586**	$ 845,136	**$1,836,907**	$1,584,158
Transportation	**209,761**	193,267	**400,534**	374,926
Petroleum	**113,501**	92,615	**242,033**	203,369
Other	**97,691**	72,181	**189,596**	143,285
Consolidated	**$1,363,539**	$1,203,199	**$2,669,070**	$2,305,738
Earnings from operations:				
Tobacco	**$ 142,005**	$ 135,348	**$ 279,465**	$ 250,914
Transportation	**33,685**	27,200	**50,347**	43,498
Petroleum	**51,691**	29,239	**112,716**	90,334
Other	**7,214**	7,216	**17,009**	13,926
Consolidated	**234,595**	199,003	**459,537**	398,672
Interest and debt expense	**13,960**	13,421	**24,766**	28,839
Foreign currency (gains) losses	**(429)**	(1,682)	**6,001**	6,766
Other (income) expense, net	**(3,839)**	(3,541)	**(6,858)**	(7,095)
Earnings before provision for income taxes	**224,903**	190,805	**435,628**	370,162
Provision for income taxes	**129,862**	99,250	**264,753**	221,192
Net earnings	**95,041**	91,555	**170,875**	148,970
Dividends on $2.25 Convertible Preferred Stock	**2,597**	2,876	**5,258**	6,601
Net earnings applicable to Common Stock	**$ 92,444**	$ 88,679	**$ 165,617**	$ 142,369
Net earnings per common share:				
Primary	**$2.02**	$2.02	**$3.62**	$3.29
Fully diluted	**1.87**	1.81	**3.35**	2.97
Dividends per common share	**.77**	.72	**1.54**	1.44
Average number of common shares outstanding:				
Primary			**45,709,005**	43,270,521
Fully diluted			**51,086,670**	50,161,683

See Notes to Consolidated Condensed Financial Statements.

R. J. REYNOLDS INDUSTRIES, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

June 30

(Dollars in Thousands)

	1976	1975
ASSETS		
Current assets:		
Cash and short-term investments	$ 106,374	$ 127,154
Accounts and notes receivable, net	431,226	327,292
Inventories	1,210,095	1,072,213
Prepaid expenses	20,871	11,336
Total current assets	1,768,566	1,537,995
Property, plant and equipment—at cost	1,986,979	1,873,532
Less allowances for depreciation, depletion and amortization	736,051	674,821
Net property, plant and equipment	1,250,928	1,198,711
Cost in excess of net assets of businesses acquired	170,945	173,959
Investment in unconsolidated petroleum subsidiary—at cost	521,702	—
Other assets and deferred charges	176,390	200,296
	$3,888,531	$3,110,961
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 649,995	$ 110,488
Accounts payable and accrued accounts	412,049	318,045
Current maturities of long-term debt	33,773	39,296
Income taxes accrued	117,152	159,814
Total current liabilities	1,212,969	627,643
Long-term debt (less current maturities)	424,178	475,378
Other non-current liabilities	52,536	76,807
Deferred income taxes	198,751	153,085
Stockholders' equity:		
Preferred Stock	48,631	53,631
Common Stock	229,060	225,512
Paid-in capital	107,150	95,293
Earnings retained	1,615,256	1,403,612
Total stockholders' equity	2,000,097	1,778,048
	$3,888,531	$3,110,961

See Notes to Consolidated Condensed Financial Statements.

R. J. REYNOLDS INDUSTRIES, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Six Months Ended June 30
(Dollars in Thousands)

	1976	1975
Working capital was provided by:		
Operations:		
Net earnings	**$ 170,875**	$148,970
Depreciation, depletion and amortization	**64,251**	64,214
Deferred income taxes	**4,489**	15,860
Long-term foreign currency translation (gains) losses	**1,201**	4,408
Other	**4,097**	3,954
Total from operations	**244,913**	237,406
Proceeds from issuance of Company's stocks	**8,405**	57,936
Other sources	**11,151**	2,449
	264,469	297,791
Working capital was used for:		
Investment in unconsolidated petroleum subsidiary	**521,702**	—
Capital expenditures	**67,841**	99,412
Cash dividends	**75,634**	69,819
Long-term debt becoming currently payable	**15,795**	17,112
Retirement of Preferred Stock upon conversion	**2,615**	18,714
Other uses	**8,958**	5,889
	692,545	210,946
Increase (decrease) in working capital	**$(428,076)**	$ 86,845

See Notes to Consolidated Condensed Financial Statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Basis of Presentation

The accompanying condensed financial statements are unaudited and include footnotes on an interim basis similar to those required for quarterly reports filed with the Securities and Exchange Commission. In the opinion of the Company the condensed financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim periods.

These condensed financial statements should be read in conjunction with the Company's Annual Report to Stockholders for the year ended December 31, 1975, a copy of which may be obtained by writing to the Secretary, R.J. Reynolds Industries, Inc., Winston-Salem, N.C. 27102.

Purchase of Petroleum Properties
On June 30, 1976, a subsidiary of the Company purchased from Burmah Oil Incorporated all of the capital stock of Burmah Oil and Gas Company and Burmah Oil Development, Incorporated (BODI) for approximately $521,702,000 cash. In addition, the Company has guaranteed the repayment of $107,316,000 advanced before June 30, 1976 by Natural Gas Pipeline Company of America to BODI under certain advance payment agreements.

The acquisition was financed by short-term bank borrowings, all or substantially all of which are expected to be replaced by a combination of long-term debt and a nonrecourse production payment financing arrangement.

The acquisition will be treated as a purchase for accounting purposes and will result in a materially different basis in the acquired assets as compared to that of the former owners. Also, it is the intention of management to apply the Company's present oil and gas accounting policies, which differ significantly from those previously used by the acquired companies, to the new business. The allocation of the purchase price to the acquired assets and the changeover in accounting methods have not been completed. Therefore, the acquired companies are not consolidated in the accompanying condensed financial statements and the Company's $521,702,000 investment therein is shown at cost. Under these circumstances, it is not currently possible to prepare separate financial statements for the acquired business or to compute the pro forma results of operations for the three-month and six-month periods ended June 30, 1976 and 1975.

Net Sales
Net sales and revenues include Federal and foreign excise taxes on tobacco products of $365,930,000 and $335,362,000 for the three months ended June 30, 1976 and 1975, respectively, and $705,629,000 and $627,745,000, respectively, for the six-month periods then ended.

Costs and Expenses
For interim reporting purposes certain costs and expenses are charged to operations in proportion to the estimated total annual amount expected to be incurred.

Income Taxes
The provision for income taxes includes both amounts due currently and amounts that are deferred and that may be payable in future years. The provision for deferred income taxes amounted to $2,810,000 and $11,186,000 for the three months ended June 30, 1976 and 1975, respectively, and $4,489,000 and $15,860,000, respectively, for the six-month periods then ended.

Earnings Per Share
Primary net earnings per common share are determined by dividing net earnings applicable to Common Stock by the average number of common shares and equivalent common shares outstanding.

Fully diluted earnings per share are calculated using the "treasury stock" method. This method assumes that all shares of the Preferred Stock outstanding during the period were converted into Common Stock and the proceeds used to purchase treasury common shares at the higher of the average daily price or period-end closing price of the Common Stock.

Cash and Short-term Investments
Short-term investments at June 30, 1976 and 1975, valued at cost (approximate market), amounted to $3,770,000 and $69,336,000, respectively. Cash balances at June 30, 1976 are substantially higher than the prior year amount due to compensating balance requirements arising from increased short-term borrowings.

Inventories
The major classes of inventory and the amount of each at June 30 were:

	1976	1975
Leaf tobacco	**$ 912,860,000**	$ 814,861,000
Manufactured products	**123,207,000**	105,742,000
Excise tax on manufactured products removed from bond	**74,453,000**	53,900,000
Other materials and supplies	**99,575,000**	97,710,000
	$1,210,095,000	$1,072,213,000

Contingent Matters
See Note D to the financial statements in the Company's Annual Report for the year ended December 31, 1975 for a description of certain commitments and contingencies including, among other things, a description of three antitrust lawsuits

involving certain tobacco farmers and purporting to be class actions. On July 16, 1976, in one of the foregoing cases, a United States Court of Appeals reversed the September, 1975 holding of the trial court that the action was not a proper class action and held that the case should proceed as a class action. Such reversal is subject to further motions and may be further appealed.

On April 28, 1976, the investigation by the Audit Committee of the Company into questionable foreign payments, politcal contributions, off-book funds and related matters was announced. Subsequently, on May 28, 1976, the Company issued a press release and filed a Current Report on Form 8-K with the Securities and Exchange Commission disclosing that the investigation had found problems principally in two separate and unrelated areas, (a) the use of corporate funds for domestic political contributions and (b) practices including the payment of rebates to shippers and some other questionable payments made by Sea-Land Service, Inc. On June 9, 1976, a suit, the factual allegations of which are largely based upon the foregoing press release, and purporting to be a derivative action, was brought in the Federal District Court for the Southern District of New York by two trustees of a trust which is an alleged shareholder in behalf of the Company and its shareholders. The defendants named are present and former directors of the Company. Plaintiffs assert claims in the suit based on common-law and the Federal securities laws for the alleged failure to disclose or account for certain foreign payments, political contributions, off-book funds and related matters and damages in an unspecified amount are sought.

See Note E to the financial statements in the Company's Annual Report for the year ended December 31, 1975 for a description of certain matters involving United States Lines (with respect to which the Independent Accountants' Report contains a qualification), including an antitrust action before a United States District Court. On June 16, 1976, the District Court dissolved the 1971 preliminary injunction described in Note E, and on June 22, 1976, it held that the supplemental agreement described in Note E is a lawful agreement and does not violate the antitrust laws. The court retained jurisdiction for the purpose of hearing and deciding any dispute that may arise between the parties in the course of carrying out the supplemental agreement.

The Company is unable to predict the outcome of the foregoing matters and the ultimate effect, if any, upon the Company's financial statements.

Common and Preferred Stocks

During the second quarter of 1976, 99,445 shares of the Company's $2.25 Convertible Preferred Stock (without par value), stated value of $10.57, were converted into 149,166 shares of Common Stock (par $5). Of the authorized but unissued common shares (60,000,000 shares authorized; 45,811,966 and 45,102,445 shares outstanding at June 30, 1976 and 1975, respectively) 6,901,293 shares were reserved for issuance upon conversion of 4,600,862 shares of $2.25 Convertible Preferred Stock (authorized 4,612,812 and 5,085,829 shares; outstanding 4,600,862 and 5,073,879 at June 30, 1976 and 1975, respectively).

Board of Directors

C. F. BENBOW
HERSCHEL H. CUDD
GORDON GRAY
WM. D. HOBBS
JUANITA M. KREPS
WALTER L. LINGLE, JR.
JOHN MACOMBER
MALCOM P. McLEAN
CHARLES F. MYERS, JR.
JAMES R. PETERSON
H. C. ROEMER
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J. PAUL STICHT
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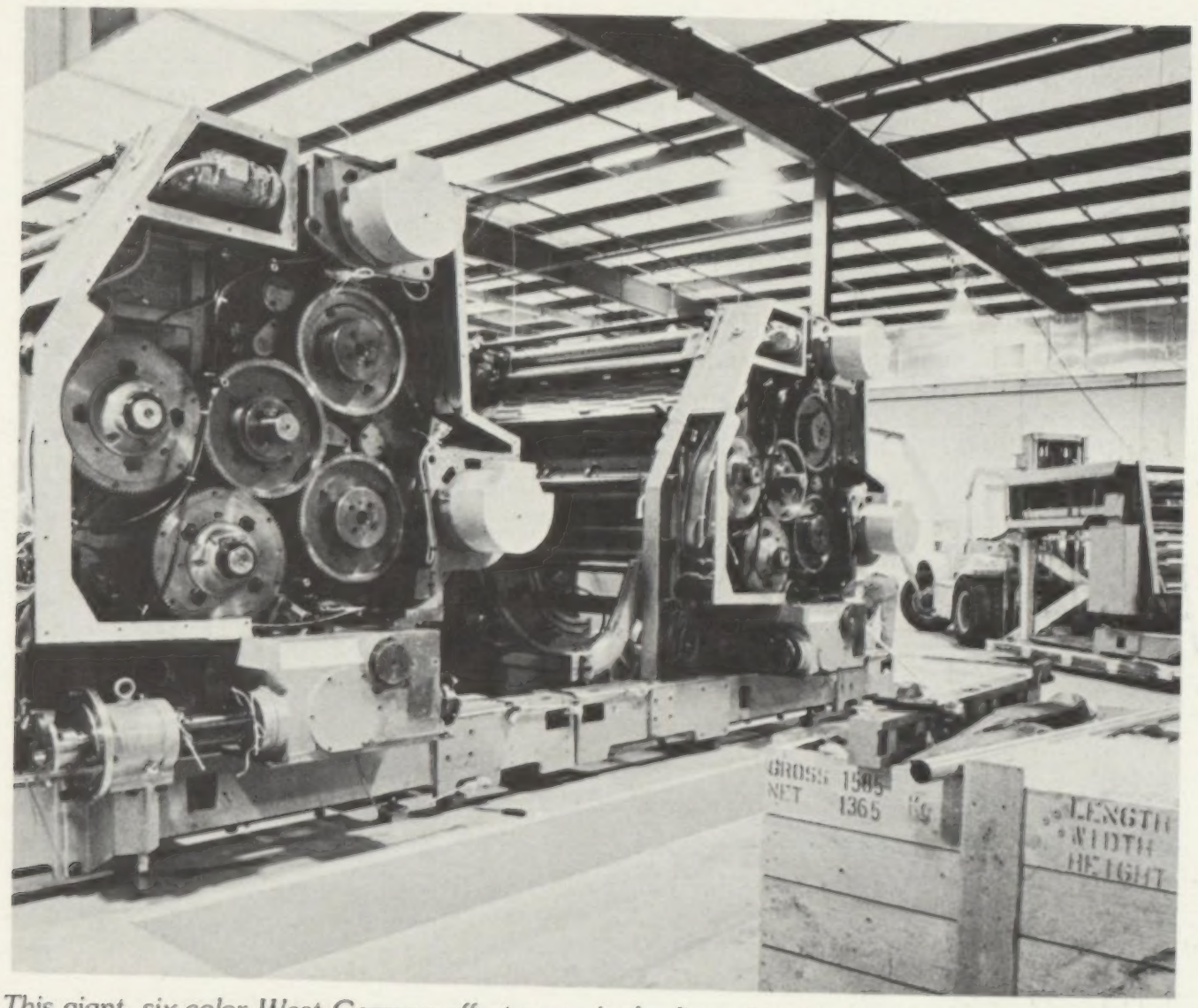
Archer boosts print capability



This giant, six-color West German offset press is the first of its kind in the United States.

A $4-million offset printing plant has begun operations adjacent to RJR Archer plant 604 in Winston-Salem, N.C.

The new offset plant adds to Archer's existing rotogravure facilities to give it some of the most complete capability available for the printing of consumer packaging.

It gives the company greater flexibility to handle trial-run quantities of new brand introductions.

The in-house print shop of the parent company, R.J. Reynolds Industries, Inc., has been integrated into the Archer offset plant.

Included in the new equipment is a six-color West German offset press. This ultra-wide, high-speed press is one of the most modern in the world and the first one of its kind in the United States.

RJR, Russia to start experiment

R.J. Reynolds Tobacco International, Inc. has concluded an agreement with the U.S.S.R. to conduct a joint experiment to see whether the best quality Virginia and possibly burley tobacco can be successfully grown in the U.S.S.R.

The experiment will begin in the autumn of this year and will continue through the 1977 growing season on a limited acreage. If the results are promising, more acreage will be devoted to the experiment the following season.

If the experiment is successful it could lead to American-blend cigarettes being manufactured in the U.S.S.R. from this leaf.

The latest agreement stems from an accord signed between RJR and the U.S.S.R. in mid-1975 on cooperation in the field of science and technology.

Sea-Land begins service to Mideast

Sea-Land Service, Inc. recently opened service between the U.S. and the Middle East — initiating service to Iran in April and to Saudi Arabia in June.

The first Middle East cargo — 217 barrels of sheepskins sent from Tehran, Iran, to an upper New York State tannery — arrived in Elizabeth, N.J., aboard the SL-7 containership Market.

Full containership service is being conducted into Persian/Arabian Gulf ports, with Rotterdam, the Netherlands, serving as the relay point and Damman, Saudi Arabia, and Bandar Abbas, Iran, as the ports-of-call.

RJR gives grant to construct aviary

R.J. Reynolds Industries, Inc. has given a $600,000 grant to the North Carolina Zoological Society for the construction of an aviary.

The aviary will be home to birds from around the world when it opens at the North Carolina Zoological Park in Asheboro, N.C., in 1977.

Hundreds of birds will live in a free-flight, almost natural environment. The aviary will be in a forested natural valley covered with mesh over cables to keep the birds inside.

With a length of 2,000 feet the R.J. Reynolds Aviary will be "the largest walk-through aviary in the United States," according to Bill Hoff, director of the North Carolina Zoological Park.

The aviary will exhibit the birds without bars, cages or fences. They will be separated from visitors by moats or other natural barriers.

RJR donates tobacco Liberty Bell to Smithsonian

A 300-pound replica of the Liberty Bell made of tobacco and symbolizing North Carolina's major agricultural crop took its place in history April 2 at Washington's Smithsonian Institution.

The bell, donated to the Smithsonian by R.J. Reynolds Tobacco Company, was made for "1876, A Centennial Exhibition." This major Bicentennial exhibit recreates the United States International Exposition held in Philadelphia in 1876.

Herbert R. Collins, associate curator, division of political history of the Smithsonian, said that each of the 36 states existing during the nation's centennial participated in the 1876 exposition. A number of them displayed a representative product or crop in the form of a Liberty Bell replica.

"When we decided to recreate the Centennial exposition on a smaller scale, we felt that reproductions of some of the bells would add a great deal," he said.

Tobacco Liberty Bell on its way to Smithsonian Institution

The tobacco bell required almost 200 hours to complete. Its 300 pounds of tobacco, enough to manufacture 150,000 cigarettes, is held together by more than 22 gallons of marine-quality polyester resin.

Since the donation of the original bell, public response has led the company to construct two identical replicas. These bells will be on loan to fairs, conventions and other public occasions throughout the Southeast.

Cereal grains patented for smoking compositions

R.J. Reynolds Tobacco Company has been assigned patents for the production of smoking compositions utilizing cereal grains such as corn, rice and wheat.

Preliminary tests indicate that the compositions can be used as tobacco extenders in cigarettes and smoking tobacco. Tests to date also indicate a potential lowering of "tar" and nicotine levels without reducing smoker satisfaction or altering tobacco taste.

"Further evaluation is necessary on any processes or compositions such as these to determine if the patented compositions can be developed into commercially viable products," Tobacco Company Chairman Wm. D. Hobbs emphasized.

The patents cover smoking compositions obtained from milo, corn, millet, rice and wheat. The process of rendering cereal grains into smoking compositions involves expanding the materials and then shredding and combining them in a smoking mixture with various amounts of tobacco and tobacco extracts.

RJR Foods opens new plant in Atlanta

RJR Foods, Inc. has opened a new 75,000-square-foot manufacturing and distribution facility in Atlanta, Ga.

The plant is part of the company's ongoing facilities planning program. The manufacturing section produces all eight flavors of canned 46-ounce Hawaiian Punch while the 45,000-square-foot distribution center distributes RJR Foods' products, except for frozen foods, to states in the Southeast.

The modern plant contains the newest distribution and food-processing equipment including an elaborate shrink-wrap packaging system. To accomodate business growth, the facility can be expanded to one and a half times its current size.

New stemmery under construction in Davie County

R.J. Reynolds Tobacco Company has begun construction of a new tobacco stemming facility in Davie County, N.C.

The new stemmery will provide additional tobacco stemming and tobacco preparation capability to meet the company's production requirements.

"This facility will give us the processing capacity we need to meet our increased production requirements in the future," Wm. D. Hobbs, Chairman, said.

A receiving center for tobacco and a maintenance center for trucks will also be built. The combined area of the three buildings will be approximately 470,000 square feet. Construction costs are estimated at $25 million.

When completed in the summer of 1977, the complex will employ some 250 persons, most of them on a seasonal basis.

The Tobacco Company presently has 16 tobacco storage sheds on the property. Construction has started on an additional 16 storage sheds.

Aerial view of Davie County stemmery site

Tobacco International introduces new brands

R.J. Reynolds Tobacco International, Inc., established early this year, has already begun to emphasize growth through new products by establishing an aggressive new-products program and new-products planning mechanism.

Already this year it has launched Vantage nationwide in Canada and is test marketing Export 'A' Lights, a line extension of Canada's most popular brand. Vantage gained a share-of-market of between 1.3 and three percent in test markets before being distributed nationally. A one percent share-of-market is the Canadian tobacco industry benchmark of success.

The company recently introduced Calvert in Ecuador and it already has more than one percent of the market.

In the Netherlands, Tobacco International has launched Reynolds No. 1, the first nonfilter low "tar" and nicotine cigarette. Nonfilter cigarettes account for approximately 66 percent of the Dutch market.

MORE, the company's 120 millimeter, brownwrapped cigarette, has been introduced as an export product into major foreign markets. In Canada and Great Britain it is sold under the MORE brand name. In the Netherlands, France and Switzerland it is called TIME. And in West Germany it is marketed as M.

Macdonald Tobacco's new brand

RJR grant helps rebuild Moravian workshop

A unique concept in historical restoration and education will be developed in the 200-year-old Moravian village of Old Salem at Winston-Salem under a $452,800 grant from R.J. Reynolds Industries, Inc.

The funds will be used to restore the Single Brothers Workshop, built in 1771, and to develop this restored building into a learning center for students.

The learning center will be used on a year-round basis by students from kindergarten through college age. Role-playing and individual inquiry will be stressed, to help students better understand religious groups such as the Moravians.

Foods debuts 64-ounce bottle

RJR Foods, Inc. has introduced nationally a new 64-ounce, resealable glass container of Fruit Juicy Red Hawaiian Punch. The company is the first major fruit drink manufacturer to market nationwide a product in a 64-ounce glass bottle.

RJR Foods began marketing the new glass container after very favorable major market testing in cities such as Atlanta, New York and Philadelphia.

The new container is designed for consumers who prefer large, family-size quantities, and who want a resealable bottle to protect the original flavor and freshness of Hawaiian Punch after opening.

Marketing support for the 64-ounce bottle's introduction includes heavy Hawaiian Punch television and print advertising in addition to a newspaper coupon program.

Tobacco names two ad agencies

R.J. Reynolds Tobacco Company has retained two new advertising agencies as part of its long-term marketing program.

Batten, Barton, Durstine & Osborn, Inc. will handle advertising for Doral that was previously handled by William Esty Company.

Ogilvy & Mather International, Inc. will be assigned a cigarette brand still under development.

"We have projected our advertising needs into the 1980s and feel we need additional agency support for adequate focus on the increasing number of brands we have in the marketplace," Wm. D. Hobbs, Chairman of Reynolds Tobacco, explained.

The Tobacco Company currently has seven national brands in 19 different styles.

Sea-Land refits port

Sea-Land Service, Inc. is transforming the quiet town of Algeciras on the southern tip of Spain into a major containerized shipping port.

Sea-Land is modernizing the port at this town on the Strait of Gibraltar to enable it to accommodate the giant SL-7 containerships.

The project includes installation of a 30-ton capacity container crane and construction of a container marshalling yard.

Dividend declared

The Board of Directors of R.J. Reynolds Industries, Inc. has declared a quarterly dividend of 77 cents per share on the Common Stock of the Company, payable September 7 to holders of record August 10.

Inquiries

Communications concerning transfer requirements and lost certificates should be directed to either Transfer Agent: The Chase Manhattan Bank, N.A., 1 New York Plaza, 14th Floor, New York, N.Y. 10015, or First Jersey National Bank, 2 Montgomery St., Jersey City, N.J. 07303.

Communications concerning dividends and change of address should be directed to R. J. Reynolds Industries, Inc., Shareholder Services Dept., Box 2959, Winston-Salem, N.C. 27102.

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